

# 2009 Economic Outlook and Revenue Assessment Committee



## *Commercial Construction Outlook January 7, 2009*

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**Idaho AGC**  
A PROUD CHAPTER OF AGC OF AMERICA





- Founded in 1934, we have over 1,100 members throughout Idaho – largest number in our history...but the economy is causing concern for membership renewal
- Of that, 110 are "General Contractors" and the rest are specialty contractors and associate members
- Four offices in Idaho: Boise, Coeur d'Alene, Idaho Falls, and Twin Falls
- Various member services including the Idaho AGC Health Plan covering over 6,000 Idahoans
- The Idaho AGC does NOT represent the residential construction industry...we are commercial contractors



# Commercial Construction defined...

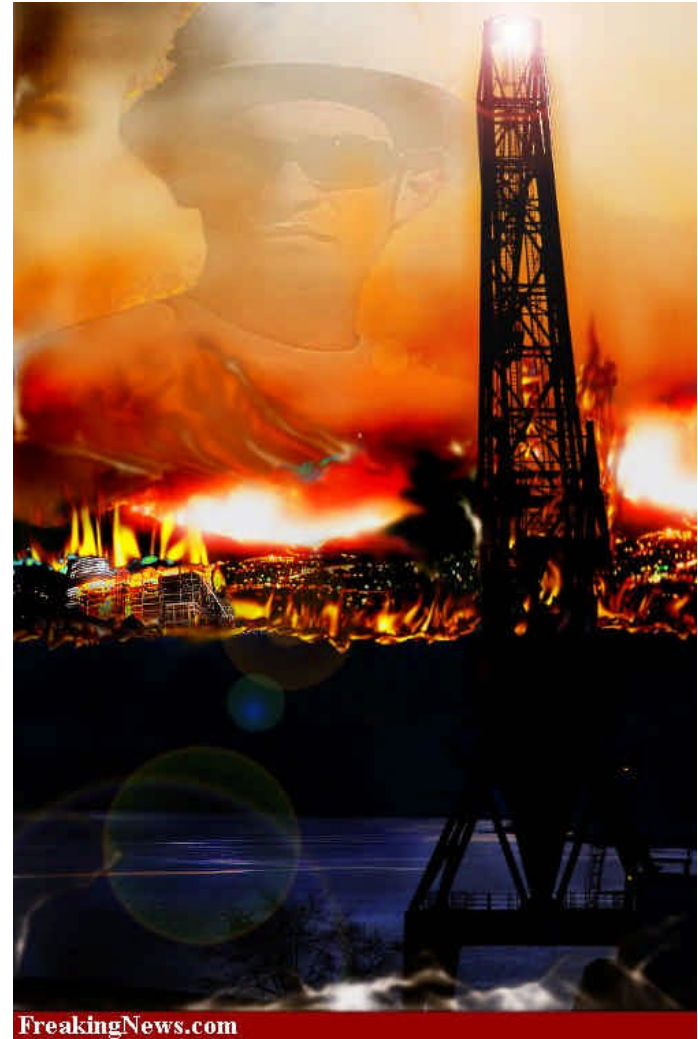
## “Non-Residential” includes:



- Schools, college & university buildings
- Retail & warehouse
- Highways & local roads
- Office
- Healthcare
- Sewer, water & public works
- Religious

# Major change from our last presentation to this committee?

- The economy!
- Wild fluctuations in material costs
- Asphalt shortages spiking in the summer
- Credit crunch
- Commercial real estate
- Transportation
- Who could have known?



# Current economic influences

- ▶ Credit market freeze affecting private, state and local borrowers
- ▶ Weak economic outlook, falling state spending
- ▶ No job growth, rising unemployment
- ▶ Wages, personal income < CPI change
- ▶ Concern about the future





# Concerns are mounting

- ▶ Construction company bankruptcies
- ▶ Layoffs at major companies for the first time in years
- ▶ "Plan Room Activity" is low
- ▶ Multiple bidders on jobs that used to attract only a few
- ▶ Companies trimming benefits
- ▶ Projects being stopped mid-construction because money is gone
- ▶ Sense of unease



# Construction employment

- ▶ In 2007, a total of 93,000 jobs were supported by the direct and indirect outlays associated with the state's nonresidential construction spending. This figure is falling as we speak.
- ▶ The construction industry (residential plus nonresidential) employed 46,000 workers in October 2008, a decrease of 6,900 (13.0%) from June 2006 when construction employment in Idaho peaked.



# Non-Residential Construction Spending

- ▶ Nonresidential construction spending in Idaho totaled an estimated \$3.8 billion in 2007.
- ▶ This direct construction spending in the state contributed a total of \$8.1 billion (15.8%) to state GDP of \$51.1 billion.
- ▶ Direct construction spending in the state added \$2.6 billion in additional personal earnings to the benefit of Idaho residents working in the state.



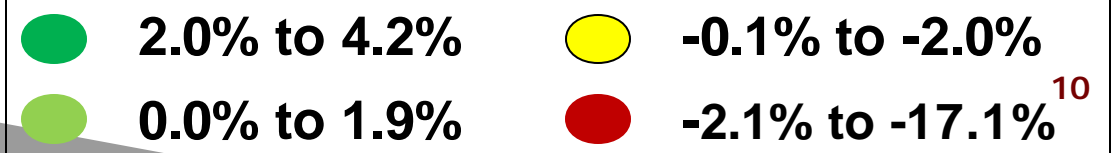
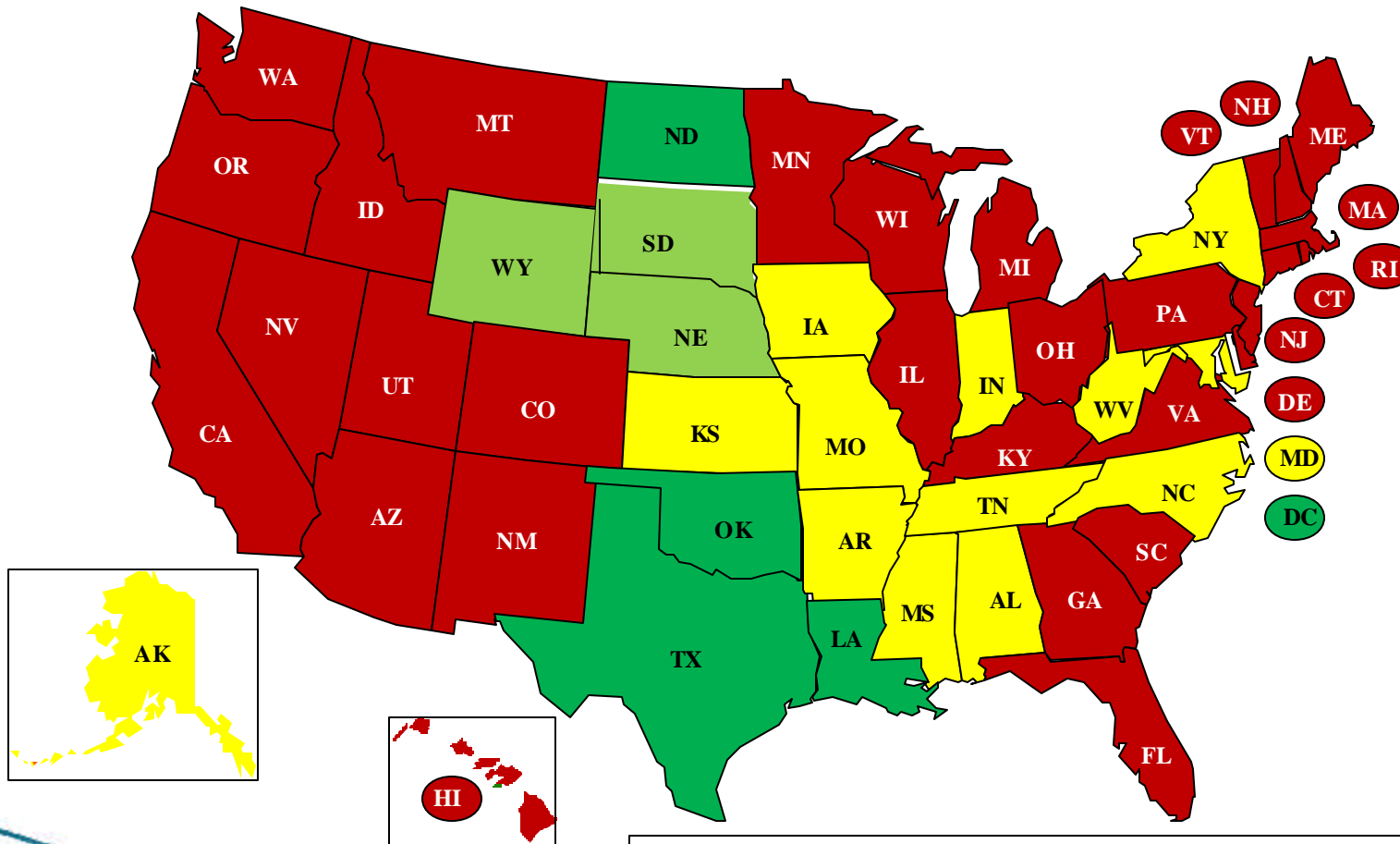


# Construction Industry Wages and Business stats

- ▶ In 2007 annual pay of all construction workers in Idaho averaged \$37,400, 12.1% more than the average for all private sector employees.
- ▶ Idaho had 9,000 construction firms in 2006, of which 94.9% were small businesses employing fewer than 20 workers.



# State construction employment, 10/07 – 10/08



# Leading segments in 2008 – 2009

Segment	2007		2008 YTD	Forecast	
	Bil. \$	Change		2008	2009
Power	53	+34%	+33%	+30 to +35%	↗
Energy	17	+55	+17	+15 to +20	↗
Hospitals	31	+14	+ 5	+ 4 to + 7	↗
Higher ed.	30	+13	+18	+15 to +18	↗

BRAC and Homeland Security (part of several segments)

# Weaker segments in 2008 - 2009

Segment	2007		2008	Forecast	
	Bil. \$	Change	YTD	2008	2009
Lodging	29	+58%	+35%	+30 to 33%	↘
Office	65	+19	+14	+10 to 12	↘
Commercial	88	+16	- 2	- 5 to - 2	↘
Primary/ Secondary	59	+15	+ 5	+3 to +6	↘
Highway	76	+ 6	+ 6	+3 to +6	0

***GARVEE ,Transportation Funding, Public Works???***

# Spending outlook for 2008 - 2009

	<b>Actual 2007</b>	<b>Forecast</b>	
		<b>2008</b>	<b>2009</b>
<b>Residential</b>	<b>-19%</b>	<b>-25 to -30%</b>	<b>- 2 to +2%</b>
<b>Nonresidential</b>	<b>+16</b>	<b>+ 9 to +12</b>	<b>- 3 to - 9</b>
<b>Total</b>	<b>-2.6</b>	<b>- 6 to - 8</b>	<b>- 1 to - 7</b>

**And...materials, labor costs may still rise**



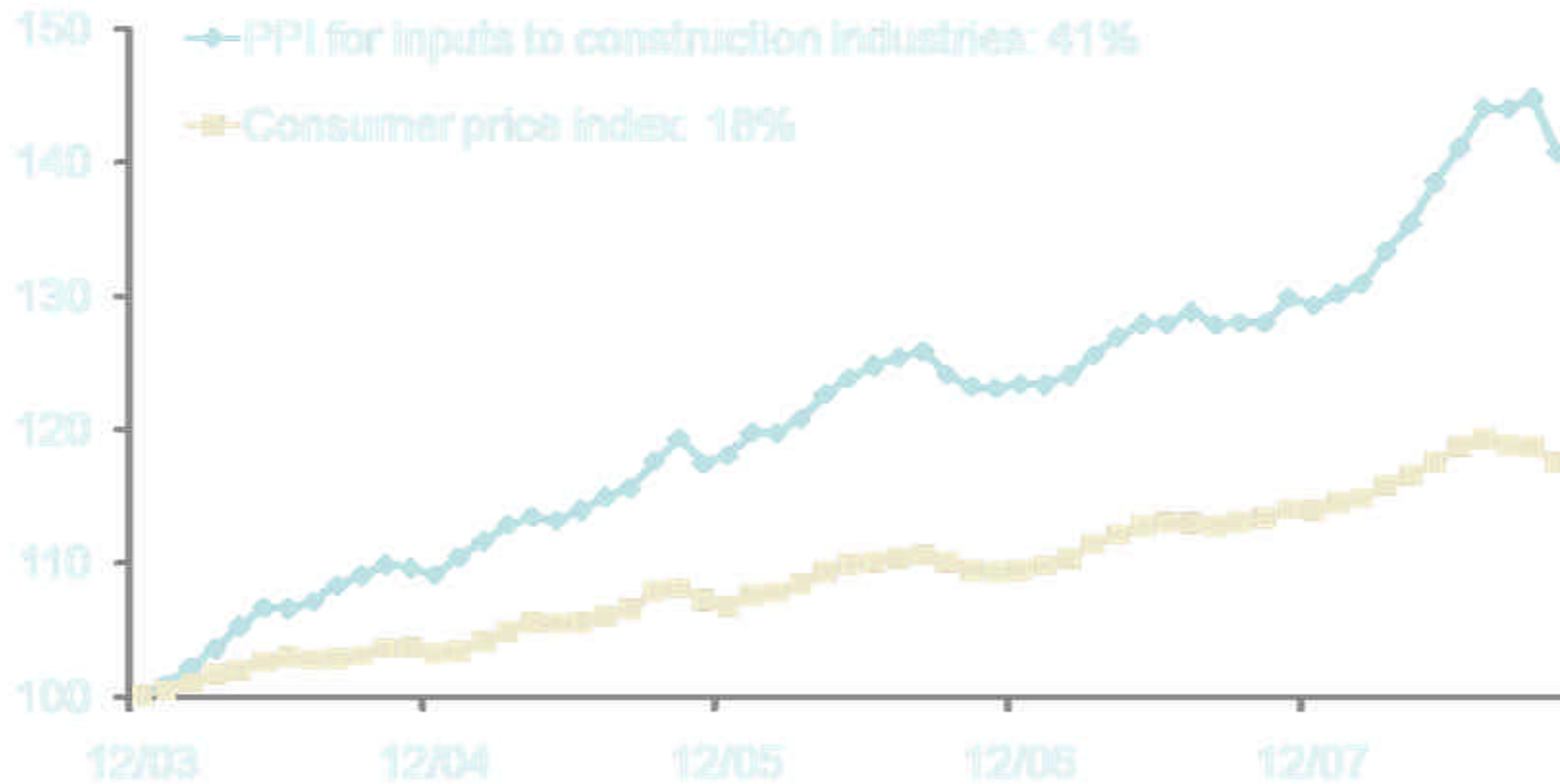
# Materials and components costs

- Higher increases for construction inputs than for overall economy:

12 mo. to:	12/04	12/05	12/06	12/07	10/08
Const PPI	9.1%	8.2%	4.6%	4.5%	10.0%
CPI-U	3.3%	3.4%	2.5%	4.1%	3.7%

- Cumulative change double the CPI since 12/03:
  - Const PPI: 41%
  - CPI-U: 18%
- Producer price index drivers: steel, gypsum, diesel, asphalt, concrete, copper, plastics, aluminum, wood

## Change In Producer Prices for Construction vs. Consumer Prices, 2003 – 2008 (December 2003 = 100)



## Change in Producer Prices for Construction Segments, 2003 – 2008 (December 2003 = 100)



# What policies should Idaho follow to promote economic growth and higher wages?

- ▶ An additional \$1 billion in nonresidential construction spending would add about \$2.1 billion to the state's Gross Domestic Product (GDP), about \$691 million to personal earnings and create or sustain 24,000 jobs.
  - ? 8,200 of these jobs would be on-site construction jobs located within Idaho.
  - ? 3,800 of these jobs would be direct and indirect jobs associated with construction supply materials and services. The majority of these jobs would be located within the state but there would be some out of state jobs supported.
  - ? 12,000 of these jobs would be created when construction, supplier and service providers spend their incomes. These jobs would be based in Idaho and throughout the economy.

# In summary....

- ▶ When asphalt prices spiked in mid-Summer, we didn't think it could get worse. **It has.**
- ▶ We predict 2009 will be challenging for the Idaho non-residential construction industry
- ▶ President-Elect Obama's economic stimulus proposals that would invest in infrastructure are a light at the end of the tunnel. **ONE TIME MONEY!**
- ▶ Increased investment in Idaho's transportation system would also help stimulate the economy

